



CITY OF NEOSHO, MISSOURI
YEAR ENDED SEPTEMBER 30, 2000

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2001-30
March 29, 2001

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2001

www.auditor.state.mo.us

The following problems were discovered as a result of an audit conducted by our office of the City of Neosho, Missouri.

The city purchased a building for \$450,000 to relocate the city hall without obtaining or requesting an independent appraisal of the property. The city's process of selecting the new city hall and the related real estate document noting the charitable contribution made by the seller were not properly documented.

The city has contracted with the Neosho Area Chamber of Commerce for economic development services totaling \$85,320 during the year ended September 30, 2000. It does not require any documentation of how these monies are used, and has not established any formal procedures to otherwise monitor the use of these monies. The city did not obtain an independent appraisal on the land purchased for construction of the "Tech Spec" building. Neither the city nor the economic development sales tax committee prepared or retained documentation to support the city's decision to construct the "Tech Spec" building or any future plans to sell the property.

The city's reconciliation of the total gallons of water billed to customers to the gallons of water pumped, indicates a significant water loss rate. During the year ending September 30, 2000, the gallons of water pumped exceeded the total gallons billed by 414,000,000 gallons, or 38 percent.

To help ensure all water usage is properly billed, the city should investigate and correct problems that cause the significant differences noted between total gallons of water billed to customers and the gallons of water pumped. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent. A similar comment was made by the city's auditor during their annual audit.

The city has not performed a formal review of the adequacy of the water and sewer rates since 1994.

The city contracts with an independent contractor for management services for the Neosho golf course. The city paid this contractor \$202,609 for these contract services during the year ending September 30, 2000. The City Manager indicated that bids have not been solicited by the city for these services. The city also paid this contractor an additional \$74,600 in "grow-in" fees for the golf course project during the period of September 1999 through January 2001.

(over)

YELLOW SHEET

The city paid \$65,000 to a not-for-profit corporation for a downtown revitalization project without entering into a written contract. In addition, the city paid \$3,575 in rental payments for a storage building without a written rental agreement.

State law requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid.

The city expended approximately \$97,000 as a result of change orders needed for the golf course renovation and expansion project. The original contract totaled \$474,000 for phase I. Council minutes indicated some of these change orders were due to a delay of a dam project and wet weather conditions. Due to these delays the council requested the contractor to start work on another phase of the golf course (approximately \$53,000 of the change order total above) which had not been include in the original bid.

Change orders are normally used to make adjustments for minor problems that are unknown when construction projects are originally bid. They should not be used to make significant changes to existing contracts. The city should ensure that all aspects of the projects are adequately bid.

The city does not properly allocate administrative salaries to the various funds.

During the first eight months of employment with the city, the sports director accumulated 1,160 hours of compensatory time. Improvement is needed in the records and procedures of the city's concessions.

Prior to fiscal year 2001, the city did not solicit proposals for a depository contract. In response to the recommendation made by the city's auditor during their previous annual audit, the city solicited proposals for a depository contract and increased the interest rate earned on the city deposits by approximately 2 percent. To ensure the city continues to receive competitive banking services, the city should periodically seek depository banking proposals from area banks.

CITY OF NEOSHO, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
City of Neosho
Neosho, Missouri 64850

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Neosho, Missouri. The city had engaged Davis, Lynn, & Moots, P.C., Certified Public Accountants (CPA firm) to perform a financial audit of the city for the year ended September 30, 2000. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. Our audit of the city included, but was not limited to, the year ended September 30, 2000. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed council minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to auditing procedures applied during our audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Neosho, Missouri.



Claire McCaskill
State Auditor

January 5, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	David Holtmann, CPA
In-Charge Auditor:	Pamela Crawford, CPA
Audit Staff:	Jay Ross Troy Royer

HISTORY AND ORGANIZATION

CITY OF NEOSHO, MISSOURI
HISTORY AND ORGANIZATION

The city of Neosho is located in Newton County. The city was incorporated in 1878 and was voted as a home rule-class city in 1973. The population of the city in 2000 was estimated at 9,389.

The city government consists of a five-member council. The five council members are elected for three-year terms. The mayor is elected by the council for one year and presides over the council. The Mayor, City Council, and other principal officials at September 30, 2000 were:

Elected Officials	Term Expires	Actual Compensation for the Year Ended September 30, 2000
Fred N. Gardner, Mayor (1)	April 2002	\$ 210
H. Howard Birdsong, Mayor Protem (2)	April 2003	85
Marjorie L. Fausett, Councilwoman	April 2003	215
Ralph J. Haas, Councilman	April 2001	250
John Ball, Councilman (1)	April 2001	25
<hr/>		
<u>Other Principal Officials</u>		
Jim L. Cole, City Manager		55,784
James E. Haddock, City Clerk		35,659
Cheryl A. Mosby, Finance Director		47,366
Angie Kirk, City Collector		28,002
Steven A. Hays, City Attorney		23,124
Dwight Douglas, Municipal Judge		13,731
Penni J. Wright, Court Clerk		20,559
David L. McCracken, Police Chief		41,880

(1) Dan Noah resigned as Mayor in August 2000. John Ball was appointed in August 2000 to fill the vacant council seat.

(2) H. Howard Birdsong was elected to the council in April 2000 to fill the vacated seat of David L. Ruth.

The elected and appointed officials are covered by a \$25,000 blanket bond. In addition, the Finance Director and City Collector are each bonded for \$300,000.

Assessed valuation and tax rate information for 2000 and 1999 are as follows:

ASSESSED VALUATION

	<u>2000</u>	<u>1999</u>
Real estate *	\$ 69,692,459	\$ 63,936,460
Personal property *	<u>38,680,876</u>	<u>35,416,640</u>
Total	<u>\$ 108,373,335</u>	<u>\$ 99,353,100</u>

* The city does not levy property taxes.

The city had the following sales taxes; rates are per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	.01000	none
Transportation	.00375	none
Economic development	.00125	none
Parks/Recreation/Drainage	.00375	none

MANAGEMENT ADVISORY REPORT

CITY OF NEOSHO, MISSOURI
SUMMARY OF FINDINGS

1. Purchase of City Hall (pages 10-11)

The city purchased a building for \$450,000 to relocate the city hall without obtaining or requesting an independent appraisal of the property. The city's process of selecting the new city hall and the related real estate document noting the charitable contribution made by the seller were not properly documented.

2. Economic Development Sales Tax (pages 11-14)

The city has contracted with the Neosho Area Chamber of Commerce for economic development services totaling \$85,320 during the year ended September 30, 2000. It does not require any documentation of how these monies are used, and has not established any formal procedures to otherwise monitor the use of these monies. The city did not obtain an independent appraisal on the land purchased for construction of the "Tech Spec" building. Neither the city nor the economic development sales tax committee prepared or retained documentation to support the city's decision to construct the "Tech Spec" building or any future plans to sell the property.

3. City Expenditures (pages 14-18)

The city has not solicited bids for golf course management services. The city paid \$65,000 to a not-for-profit corporation for a downtown revitalization project without entering into a written contract. The city entered into a questionable contract with a local fitness center. The city began work on a phase of the golf course project without soliciting bids for the work. The city does not properly allocate administrative salaries to the various funds and timesheets are not always signed by the employee. The city does not maintain mileage or maintenance logs for many of the vehicles and equipment owned by the city. The city has not developed a policy regarding the use of cellular phones.

4. Water and Sewer System Procedures (pages 18-19)

The city's reconciliation of gallons of water billed to customers to the gallons pumped, indicates a significant water loss rate. The city has not performed a formal review of the adequacy of the water and sewer rates since 1994.

5. Sports Department (pages 19-21)

During the first eight months of employment with the city, the sports director accumulated 1,160 hours of overtime. Improvement is needed in the records and procedures of the city's concessions.

6. Depositary Contract (pages 21-22)

Prior to fiscal year 2001, the city did not solicit proposals for a depositary contract.

CITY OF NEOSHO, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Purchase of City Hall

In March 1998, the city purchased the NationsBank building (located on the square) for \$450,000 to be used as the city hall. The city spent an additional \$52,000 to remodel, remove asbestos, and move into the building. As part of the sales agreement, the city agreed to lease approximately 3,500 square feet of the building back to the seller for five years at no cost to the seller. The lease agreement also required the city to provide all utilities and services to the seller for normal office uses. In July 1999, the city assigned this lease to the Neosho School District for the remainder of the lease period as requested by the seller. A review of this transaction disclosed the following concerns:

- A. The city did not request or obtain an independent appraisal on the property. Additionally, although the City Manager indicated the city had reviewed several other properties, a formal review or cost study was not performed and documented of this property and the related lease arrangements compared to other potential properties.

Good business practice requires that major real estate purchases be formally and independently appraised to ensure a reasonable price is paid, and a formal review or cost study be performed and documented at the time of the purchase to support the city's decision making process.

- B. The sales agreement required the city to provide the seller with an IRS Form 8283-Noncash Charitable Contribution (for the excess of market value over the sales price of the property). The City Manager prepared and signed this form without filling in the amounts required to calculate the amount of the contribution made to the city by the seller. The City Manager was uncertain of the amount of the noncash charitable contribution.

To ensure transactions are properly represented by all parties involved, all applicable documents should be completely prepared.

WE RECOMMEND the City Council:

- A. Obtain independent appraisals for any property being considered for purchase. In addition, the city should ensure a formal review or cost study is prepared and documented for all significant purchases.
- B. Ensure all real estate documents are completely prepared.

AUDITEE'S RESPONSE:

- A. *The City of Neosho is confident that the transaction, which resulted in the purchase of the City Hall, was entered into only after a satisfactory cost study was completed by City Manager Jim Cole. The City of Neosho is of the opinion that the city made a very good investment as a result of this purchase. City Hall cost the Neosho taxpayers \$450,000 and has an appraised value of \$730,000. However, the City does recognize the benefit of Auditor McCaskill's recommendation to obtain independent appraisals and will implement this recommendation in future transactions.*

- B. *Although verbal confirmation was made in regards to the amount agreed upon, this amount failed to be reduced to writing on the proper IRS Form. In the future, the City of Neosho will make every effort to assure all proper and necessary forms are fully executed.*

2. Economic Development Sales Tax
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The city has a one-eighth cent economic development sales tax (EDST). The city established an economic development sales tax committee in 1990 to assist the city in planning how the EDST monies would be spent. Since the establishment of the EDST, the city has utilized the tax dollars by contracting with the local Chamber of Commerce to provide economic development services and by constructing a 30,000 square foot "Tech Spec" building to attract targeted industry into the Neosho area. During the year ended September 30, 2000, the city collected approximately \$216,000 in EDST. A review of the contract with the local Chamber of Commerce and the construction of the "Tech Spec" building disclosed the following concerns:

- A. The city contracted with the Neosho Area Chamber of Commerce for economic development services for \$85,320 (in equal monthly installments) during the year ended September 20, 2000. This was done without requiring this entity to provide documentation to support how those monies were used. In addition, it does not appear the city has established any formal procedures to monitor the use of EDST monies. During our review, the Neosho Area Chamber of Commerce provided our auditors detailed financial reports regarding the use of EDST monies.

To ensure the proper use of the city's economic development sales tax monies, the city should establish formal procedures to monitor the use of the EDST monies and require detailed information (such as detailed financial reports, invoices for specific activities, audits, etc.) from the Neosho Area Chamber of Commerce to document how these city funds are used.

- B. Upon the recommendation of the economic development sales tax committee, the city entered into a lease-purchase agreement with the Neosho Area Business and Industry Foundation (NABIF), a not-for-profit corporation, for the purchase of

property and construction of a “Tech Spec” building in February 1996. The city has spent over \$430,000 of sales tax monies to construct the “Tech Spec” Building. Construction of the “Tech Spec” building was completed in October 1996. The building has remained vacant since completion. The City Manager indicated this property was intended to draw industrial businesses to the area by placing it on a speculative building list maintained by the State Department of Economic Development. The city has recently been finalizing negotiations for the lease-purchase of this building and property with an industrial business. A review of planning and construction of this project disclosed the following concerns:

1. The city did not request that NABIF obtain an independent appraisal to value the land prior to purchase. NABIF purchased 9.5 acres for \$80,000 (approximately \$8,400 per acre). The city recently sold some land in the area for approximately \$5,100 per acre. Good business practice requires that major real estate purchases be formally and independently appraised to ensure a reasonable price is paid.
2. While the Chamber of Commerce retained some documentation for the proposed plans of the “Tech Spec” building, neither the city nor the economic development sales tax committee prepared or retained documentation to support the city’s decision to construct the “Tech Spec” building and any future plans to sell the property. The city invested a substantial amount of funds in the “Tech Spec” building without any formal plans to ensure the city would receive an adequate return on its investment.

WE RECOMMEND the City Council:

- A. Improve the control and accountability over the use of economic development sales tax monies spent by the Chamber of Commerce.
- B.1. Ensure independent appraisals are obtained for all future property purchases.
2. And the economic development committee ensure future projects are adequately planned and documented. In addition, a formal review of the proposed costs and potential return on investments of future speculative building plans should be completely documented.

AUDITEE’S RESPONSE:

- A. *As acknowledged in Auditor McCaskill’s report, the Neosho Area Chamber of Commerce provided her auditors with detailed financial reports regarding the use of Economic Development Sales Tax monies. There were no irregularities identified. The Neosho Area Chamber of Commerce retains the services of a local CPA firm for purposes of generating quarterly reports of the economic development funds. The City of Neosho recognizes the risk of not adequately monitoring these funds and as such, effective March 2001, the City of*

Neosho will require the quarterly written reports generated by this CPA firm be submitted to the Neosho City Council for review.

- B.1. When selling or purchasing land it is important to understand that land by its very nature is unique. Many factors come into play when making a valuation of one tract of real estate verses another tract. Improvements, amenities and location play a very important role to potential purchasers as well as the seller. The two tracts of land identified in this report are likewise two totally separate and unique parcels, one is unimproved vacant land and the other has improvements such as an active railroad spur. To compare the two as equal, calls for a simplification of the valuation process. Additionally, the City of Neosho must make strategic decisions when selling industrial land so as to best compete with other municipalities for the jobs and monies that are generated by the proposed buyer. In other words, if the City of Neosho makes an informed decision that the economic impact of the proposed business or manufacturer outweighs the cost of selling a tract of land at a discounted price, then said sale is still in the best interest of the City of Neosho. Certainly, the City of Neosho concurs with Auditor McCaskill’s premise that under normal business practices independent appraisals are valuable for the determination of fair market values. Conducting the business of municipal economic growth however calls for creative business practices that in turn develop into jobs and tax revenue. The City of Neosho will give due consideration to Auditor McCaskill’s recommendation prior to entering into future land purchases.*
- 2. It is completely acceptable for a municipality to invest in the construction of a speculative building knowing that said building might not be immediately occupied. A speculative building program should be looked upon not as an investment, but as a marketing tool that derives its value from the amount of industrial jobs/payroll and expansions or new firms locating in a municipality. This was the intent of the Economic Development Committee, Neosho Area Chamber of Commerce and the Neosho City Council when the speculative building was constructed. As a result of this decision, the City of Neosho has received a substantial economic impact that includes, but is not limited to the following:*

<u>COMPANY</u>	<u># OF EMPLOYEES</u>
<i>Applegate Steel</i>	<i>20</i>
<i>BASF</i>	<i>12</i>
<i>Brass Eagle-Neosho</i>	<i>230</i>
<i>Outland Sports-Underground</i>	<i>190</i>
<i>Scholastic, Inc.</i>	<i>450</i>
<i>Twin Rivers Poultry</i>	<i>475</i>
<i>Total Annual Payroll</i>	<i>\$21,028,400</i>

According to the U.S. Chamber of Commerce, every payroll dollar turns over within a community seven times. Clearly, there has been a great economic impact of the speculative building within the City of Neosho.

As recommended by Auditor McCaskill, all future projects will be adequately planned and documented with the goal of each being as successful as the above noted project.

Due to the volatile nature of the economy, it is impossible to perform formal reviews on the “potential return” of investments with the expectation of such review being accurate. Corporate and manufacturing layoffs, cutbacks and mergers are an unknown that simply cannot be predicted. The City of Neosho believes that although important, formal reviews are just one aspect of gaining the “upper hand” in a very competitive job growth market. Noting this, the City of Neosho strongly believes it can aggressively and successfully compete with other municipalities for jobs and monies that become available provided “all” available economic development tools are made available. According to the Missouri Department of Economic Development, speculative building programs top the list as one of the most effective marketing tools. A speculative building listed with the Missouri Department of Economic Development attracts nationwide attention. The City of Neosho’s track record with regard to the speculative building is proof that such a program can be very successful. As far as Auditor McCaskill’s recommendation, the City of Neosho is of the opinion that the speculative building was adequately planned and documented. This being stated, the City of Neosho will continue to adequately plan and document future projects.

3.

City Expenditures

- A. The city contracts with an independent contractor for management services for the Neosho golf course. The city paid this contractor \$202,609 for these contract services during the year ending September 30, 2000. The City Manager indicated that bids have not been solicited by the city for these services. The city also paid this contractor an additional \$74,600 in “grow-in” fees for the golf course project during the period of September 1999 thru January 2001.

Soliciting proposals and entering into a truly competitive bidding process provides the city a means to select the contractor best suited to provide the service required. Good bidding practices provide the city with a range of possible choices which should allow for a better-informed decision to be made when acquiring necessary services.

The city should also evaluate whether these services could be provided by city employees at a lower cost to the city. Most of the communities we contacted managed their municipal golf course by paid municipal employees. The city’s audited financial statement noted an operating loss of \$78,037 for the Golf Course Fund for the year ended September 30, 2000.

- B. The city paid \$65,000 to a not-for-profit corporation for a downtown revitalization

project without entering into a written contract. In addition, the city paid \$3,575 in rental payments for a storage building without a written rental agreement.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- C. The city contracted with the Freeman Southwest YMCA, a not for profit corporation, to provide admission tickets with a face value of \$53,054 for the city to distribute. In exchange, the city has agreed to provide water and sewer hookup services and waive the applicable city permit, inspection, and meter deposit fees totaling \$26,527. The city manager indicated this contract was negotiated to provide an indoor pool to its city residents for year-round use since the city pool is only open during the summer months. The applicable city fees offset actual costs incurred by the city to provide services by the water and sewer departments. The city should not use water and sewer funds to support recreational activities. The city should ensure all costs related to the contract are charged to the general fund and determine an equitable manner to distribute the admission tickets.

- D. The city expended approximately \$97,000 as a result of change orders needed for the golf course renovation and expansion project. The original contract totaled \$474,000 for phase I. Council minutes indicated some of these change orders were due to a delay of a dam project and wet weather conditions. Due to these delays the council requested the contractor to start work on another phase of the golf course (approximately \$53,000 of the change order total above) which had not been included in the original bid.

Change orders are normally used to make adjustments for minor problems that are unknown when construction projects are originally bid. They should not be used to make significant changes to existing contracts. The city should ensure that all aspects of the projects are adequately bid.

- E. The city does not properly allocate administrative salaries to the various funds. The city attempts to allocate administrative salaries to various funds based upon total fund expenditures. The city should consider allocating administration salaries based on the number of hours related to streets, water and sewer, or other activities. Adequate procedures should be established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures based upon the number of hours worked for each activity and to ensure restricted revenues are expended only for their intended purposes.

Proper allocation of expenses is necessary for the city to ensure the water and sewer

rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Furthermore, the uses of state motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses based upon actual hours worked is useful for both management and compliance purposes.

- F. Timesheets are not always signed by the employee. During our review of timesheets for one pay period, we noted fifteen timesheets that were not signed by the employee. Adequate control over payroll expenditures requires documentation, such as properly completed timesheets signed by employees and approved by supervisors, to provide evidence that the appropriate amount of time is worked each month.
- G. The city does not maintain mileage or maintenance logs for many of the vehicles and equipment owned by the city. Mileage logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The mileage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to gasoline purchases and other maintenance charges.
- H. The city expended \$12,905 for cellular phone charges for 32 cellular telephones assigned to various city employees during the year ended September 30, 2000. Although the city does have a written personnel policy discouraging employees from making personal calls, we noted numerous instances where the city incurred phone charges for personal calls to employee's relatives and homes. In addition, a documented review of cell phone charges by each employee's supervisor has not been performed.

A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the council authorizes the phone to be used for personal purposes. Procedures should be implemented to monitor cellular phone usage and review invoices for propriety.

WE RECOMMEND the City Council:

- A. Solicit bids for golf course management services. In addition, the city should evaluate whether these services could be provided by city employees at a lower cost to the city.
- B. Ensure formal written contracts are entered into for services obtained by the city.
- C. Ensure all costs related to the contract are charged to the general fund and determine

an equitable manner to distribute the admission tickets.

- D. Ensure that all aspects of the projects are adequately bid.
- E. Ensure the allocation of administrative salaries is based on the number of hours related to streets, water and sewer, or other activities.
- F. Ensure timesheets are signed by all employees.
- G. Maintain mileage and maintenance logs for all city vehicles and equipment.
- H. Develop a policy regarding the use of cellular phones including an assessment of which employees need a cellular phone and procedures to monitor use.

AUDITEE'S REPOSE:

- A. *Upon the expiration of the current golf management contract, the City of Neosho will consider proposals for this service as well as the potential of municipal operation.*
- B. *The City of Neosho has entered into a contract in relation to the downtown revitalization project. The City of Neosho will continue to follow this recommendation in the future.*
- C. *The cost of the water meter will be borne by the general revenue fund. The City of Neosho agrees with Auditor McCaskill in her premise that water and sewer funds should not be used to support recreational activity and will continue to follow her recommendation in the future.*
- D. *Seven bids were received for phase 1 of the golf course expansion project. Courtney Construction was low bid at \$474,059. The next low bid was \$558,165, a difference of \$84,106, and the bids ranged to a high of \$920,946. Had the City of Neosho chosen to bid some of the change order items suggested, these would have been the same contractors who would have bid the work.*

There were two reasons that Flatt Golf Services suggested proceeding with some of the next phase of work. The first reason was an attempt to catch up on some lost time due to the delays of the federally designed and managed dam project. The second reason was to take full advantage of the excellent unit costs obtained in the contract with Courtney Construction.

The fact that the price incurred included the original bid price, an amount that clearly saved the City of Neosho increased cost, led the Neosho City Council to approve the change order rather than incur additional cost. The recommendation of Auditor McCaskill will be considered in future projects and weighed as to the best value for the City of Neosho.

- E. *The City of Neosho allocates administration fees based on the amount of a department's budget as compared to the total budget. This ratio is then calculated as to the department's*

budget and charged accordingly. It is the City of Neosho's position that this formula is the most cost effective. However, the City will study alternative formulas and if one is found more effective, integrate that formula into the fiscal administration policy.

- F. The City of Neosho has corrected this infraction and now requires all employees to sign timesheets prior to receiving his/her paycheck.*
- G. Mileages of all vehicles are required each time a vehicle is fueled by the City of Neosho fuel card system. Maintenance costs are then retained in the City's accounting system. The City of Neosho recognizes Auditor McCaskill's recommendation and will review and implement better methods upon identification of said methods.*
- H. A procedure to review all cell phone use and charges has been implemented. Upon identifying personal cell phone calls the City of Neosho mandates reimbursement by the caller.*

4. Water and Sewer System Procedures

- A. The city's reconciliation of the total gallons of water billed to customers to the gallons of water pumped, indicates a significant water loss rate. During the year ending September 30, 2000, the gallons of water pumped exceeded the total gallons billed by 414,000,000 gallons, or 38 percent. The city manager indicated that he believed the loss was due to old residential meters that were running slowly and the use of fire lines at several industrial businesses that are not metered. In addition, the city does not monitor the meter at the pump station that provides water and sewer service to the industrial park area.

To help ensure all water usage is properly billed, the city should investigate and correct problems that cause the significant differences noted between total gallons of water billed to customers and the gallons of water pumped. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent. In addition, the city should perform meter readings at the pump station and reconcile these readings to amounts billed in this area to assist the city in detecting water leaks. A similar comment was made by the city's auditor during their annual audit.

- B. The city has not performed a formal review of the adequacy of the water and sewer rates since 1994. The city's audited financial statements show a loss of approximately \$224,000 in the Water and Sewer Fund for the year ended September 30, 2000.

The City fiscal policy requires a comprehensive study of water and sewer user charges to be conducted every three years. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be

set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation.

WE RECOMMEND the City Council:

- A. Investigate and correct the problems that cause the significant water loss rate. In addition, the city should perform meter readings at the pump station and reconcile these readings to amounts billed in the industrial park area.
- B. Review water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service.

AUDITEE'S RESPONSE:

A. *The City of Neosho recently completed a comprehensive water leak survey of the entire municipality. This survey demonstrated no major leaks. It is the City's position that the high loss rate is attributable to three areas:*

- i. *Old Water Meters;*
- ii. *Unmetered Industrial Fire Lines; and*
- iii. *Leaking Fire Hydrants*

The City is addressing all three of these areas. It is the City's belief that the majority of water loss is in the old water meters which will be the most costly to repair. The City will be accelerating its meter change out program as funds allow.

B. *The City of Neosho agrees with Auditor McCaskill's recommendation that a comprehensive review is in order. The City is targeting this review for the upcoming 2001-2002 budget. The actual process of this review will initiate in the next few months.*

5.

Sports Department

The city established a sports department and hired a sports director to manage the city's sporting events in February 2000. Our review of the sports department identified the following concerns:

- A. During the first eight months (February thru September, 2000) of employment with the city, the sports director accumulated 1,160 hours of compensatory time (in addition to his regular 40 hour week). The sports director claimed 14 or more hours worked per day sixty five times during this 33 week period (an average of 75 hours a week). On several days, the sports director claimed a total of 17 hours worked. While the creation of a new department may place additional demands to ensure the department is operating effectively, it is not reasonable to expect someone to work

such excessive hours. The city has paid the sports director \$6,771 in September 2000 for 640 hours of accumulated compensatory time. The sports director's compensatory balance at September 30, 2000, was 425 hours.

The city should review and monitor the number of hours worked by the sports director and determine whether it would be more cost effective to hire another employee to perform some of these duties. In addition, the city's personnel policy requires compensatory time balances over 120 hours to be paid to department heads.

- B. The sports director hired his daughter to work concessions during the year ending September 30, 2000, and the city paid her \$395 prior to discovering that she was a relative of the sports director. The city notified the sports director on June 15, 2000, that the hiring of immediate family within the same department is a violation of the city's personnel policy. The city should ensure all new employees are hired in accordance with its personnel policy, and those authorized to hire employees are familiar with city policy.
- C. The sports department began using cash registers for concessions in September 2000; however, the concession workers did not indicate the method of payment received or the type of item sold on the cash register tapes. To ensure all receipts have been recorded properly and transmitted intact, the method of payment should be noted on the cash register tapes and the composition of receipts should be reconciled to the composition of city transmittals. In addition, to properly account for concession inventories, the type of item sold should be recorded on the cash register tapes and should be reconciled to concession items purchased and inventories on hand.
- D. Concession receipts are taken home overnight by the sports director after sporting events and transmitted to the city the next business day. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, concession receipts should be transmitted intact to the city's night depository after the daily sporting events.
- E. The sports department has not performed a formal review of concession prices and related costs. To ensure the city is covering the cost of these services, a periodic review of concession prices and related costs should be performed.

WE RECOMMEND the City Council:

- A. Review and monitor the number of hours worked by the sports director and consider whether it would be more cost effective to add another employee. In addition, the city should ensure personnel policies regarding the payment of compensatory time earned are followed.
- B. Ensure all new employees are hired in accordance with city personnel policies.

- C. Ensure the method of payment received is noted on the cash register tapes and the composition of receipts should be reconciled to the composition of city transmittals. In addition, the type of item sold should also be recorded on the cash register tapes and reconciled to purchases and inventories on hand.
- D. Ensure concession receipts are transmitted intact to the city's night depository after the daily sporting events.
- E. Ensure a periodic review of concession prices and related costs is performed.

AUDITEE'S RESPONSE:

- A. *The Neosho Sports Department was a new department in 2000. The time required to get it set up was unknown. At the request of the Sports Director it was agreed to allow him to accumulate time to get the various programs established. Once the programs were established the time would then be credited back. The sports programs generated more revenue than anticipated and thus the City had sufficient funds to buy down some of the excess hours. This winter the hours have been reduced as planned and agreed to. In the future, the Sports Director's hours of work will be required to remain within the appropriate limits. Additionally, the City has added two part-time employees to assist in this department.*
- B. *Upon discovery of the hiring of this individual, she was promptly released from the City's employ. The City has implemented a new hiring procedure that centrally locates all records to prevent the possibility of future infractions.*
- C. *The City of Neosho will assure proper training is given to concession workers so as to assure the proper use and documentation of register sales. The current cash register machines are capable of full documentation and inventorying.*
- D. *This practice has been corrected. All reconciliation and deposits will be made the same day as the sporting event.*
- E. *The City of Neosho will follow Auditor McCaskill's recommendation and initiate a formal price/cost review prior to the opening of the 2001 concessions.*

6.	Depository Contract
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Prior to fiscal year 2001, the city did not solicit proposals for a depository contract. In response to the recommendation made by the city's auditor during their previous annual audit, the city solicited proposals for a depository contract and increased the interest rate earned on city deposits by approximately 2 percent. To ensure the city continues to receive competitive banking services, the city should periodically seek depository banking proposals from area banks.

WE RECOMMEND the City Council continue to periodically seek proposals or competitively bid the city's depository banking services.

AUDITEE'S RESPONSE:

The City of Neosho has sought competitive bids on its deposit contracts. Currently, the City is under contract and upon conclusion of the contract term the City will again solicit proposals to ensure the City receives competitive services.

This report is intended for the information of the management of the city, and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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